

Background

PERS 1 and TRS 1 retirees are first eligible to receive Uniform COLA increases when they have attained age 66 and been retired one year. Currently the determination of eligibility is made on July 1 of each year. As a result, retirees with birthdays after July 1 do not become eligible to receive the increase until the following year.

Committee Activity

Presentation:

November 18, 2003, Full Committee

Proposal Approved:

November 18, 2003, Full Committee

Recommendation to Legislature

Amend Uniform COLA eligibility to include all PERS 1 and TRS 1 retirees who have been retired one year and will have attained age 66 by December 31 of the calendar year in which the increase is given.

Staff Contact

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Select Committee on Pension Policy

Age 66 COLA

(November 10, 2003)

Issue	Allowing PERS 1 and TRS 1 retirees who have been retired for at least one year to begin receiving the Uniform COLA on July 1 of the calendar year in which they turn age 66.
Staff	Laura Harper (360) 586-7616
Members Impacted	Approximately 25,000 TRS 1 and 37,000 PERS 1 members who are under age 65 would be affected by this bill.
Current Situation	The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1 st to be eligible for the adjustment paid on July 1 st .
History	The Joint Committee on Pension Policy (JCPP) recommended HB 1197 and SB 5097 to the 2003 legislature. This legislation would have allowed PERS 1 and TRS 1 members, who had been retired for at least one year, to begin receiving the Uniform COLA on July 1 st of the calendar year in which they reached age 66. Neither bill received a hearing.

Policy Analysis

PERS 1 or TRS 1 members who have been retired at least one year, and whose birthdate is from January 1st to July 1st, receive their first COLA on July 1st of the calendar year in which they turn age 66 -- at the latest, 6 months after reaching age 66. Members who have been retired at least one year, and whose birthdate is from July 2nd to December 31st, receive their first COLA anywhere from 6 months to almost 1 year after reaching age 66.

Estimated Fiscal Impact

See attachment

Bill Draft

See attachment

FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:

CODE:

DATE:

BILL NUMBER:

Office of the State Actuary

035

11/10/03

Z-0875.1/04

SUMMARY:

This bill impacts the Public Employees' Retirement System (PERS) Plan 1 and Teachers' Retirement System (TRS) Plan 1 by allowing those who have been retired for one year, and will be at least age 66 by December 31st, to receive the annual increase paid on July 1st of that year.

Effective Date: July 1, 2004.

CURRENT SITUATION:

The current provision requires the member to have been retired one year and to be at least age 66 on July 1st to be eligible for the annual increase paid that year. This means that some members will get their first COLA as early as age 66, while others will not get theirs until age 67. This bill would change the age eligibility so that members would get their COLA as early as age 65½, but no later than age 66½. This bill does not change the requirement that the member must be retired at least one year to receive the initial annual increase.

MEMBERS IMPACTED:

We estimate that 50% of the members who are under age 65 would be affected by this bill.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	10,964	33,148
Actives	12,259	12,456
Vested Terminated	1,785	1,819

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	11,918	54,006
Actives	20,934	21,737
Vested Terminated	3,108	3,280

We estimate that for a typical member impacted by this bill, the initial annual increase would be paid one year earlier. The annual increase for July 1, 2004 is \$1.21 per month for each year of service. The annual increase is increased by 3% each year and by future "gain-sharing" amounts. The typical recipient of the Uniform COLA has 20 years of service in PERS and 25 years of service in TRS.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

Teachers' Retirement System and Public Employees' Retirement System (Plan 1):

<i>(Dollars in Millions)</i>	System:	Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 1	\$ 12,532	\$ 34	\$ 12,566
<i>(The Value of the Total Commitment to all Current Members)</i>	TRS 1	10,209	29	10,238
 Unfunded Actuarial Accrued Liability	PERS 1	\$ 1,393	\$ 34	\$ 1,427
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>	TRS 1	586	29	615
 Unfunded Liability (PBO)	PERS 1	\$ 925	\$ 31	\$ 956
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>	TRS 1	236	28	264

Required Contribution Rate - Employer/State	PERS	3.78%	.03%	3.81%
	SERS	3.64%	.03%	3.67%
	TRS	3.19%	.05%	3.24%

(All of the above increases are increases in the plan 1 uaal rate paid by all employers for each of their plan 1, 2 and 3 members. There is no increase in the normal cost rate)

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures (for existing members impacted by this bill) is projected to be:

	<u>PERS</u>	<u>TRS</u>	<u>SERS</u>
Increase in Contribution Rates: Effective 9/1/2004			
Employee (Plan 2)	0.00%	0.00%	0.00%
Employer	0.03%	0.05%	0.03%
 Costs (in Millions):			
2004-2005¹			
State:			
General Fund	\$ 0.3	\$ 1.3	\$0.2
Non-General Fund	0.7	0.0	\$0.0
Total State	\$ 1.0	\$ 1.3	\$0.2
Local Government	\$ 0.9	\$ 0.2	\$0.1

¹ The UAAL basic rate was set to zero by the legislature for 2003-2005. This does not apply to future supplemental rate increases.

	<u>PERS</u>	<u>TRS</u>	<u>SERS</u>
2005-2007			
State:			
General Fund	\$ 0.9	\$ 3.5	\$ 0.6
Non-General Fund	<u>1.7</u>	<u>0.0</u>	<u>\$ 0.0</u>
Total State	\$ 2.6	\$ 3.5	\$ 0.6
Local Government	\$ 2.3	\$ 0.6	\$ 0.5
 2004-2029			
State:			
General Fund	\$ 16.0	\$ 54.4	\$ 7.8
Non-General Fund	<u>27.1</u>	<u>0.0</u>	<u>\$ 0.0</u>
Total State	\$ 43.1	\$ 54.4	\$ 7.8
Local Government	\$ 38.5	\$ 10.9	\$ 6.7

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Public Employees' Retirement System and Teachers' Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

None.
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2004 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

1 AN ACT Relating to public employees' retirement system, plan 1 and
2 teachers' retirement system, plan 1 age and retirement requirements for
3 receipt of the annual increase amount; amending RCW 41.40.197 and
4 41.32.489; and providing an effective date.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 41.40.197 and 1995 c 345 s 5 are each amended to read
7 as follows:

8 (1) Beginning July 1, 1995, and annually thereafter, the retirement
9 allowance of a person meeting the requirements of this section shall be
10 increased by the annual increase amount.

11 (2) The following persons shall be eligible for the benefit
12 provided in subsection (1) of this section:

13 (a) A beneficiary who has received a retirement allowance for at
14 least one year by July 1st in the calendar year in which the annual
15 increase is given and has attained at least age sixty-six by ((July
16 1st)) December 31st in the calendar year in which the annual increase
17 is given; or

18 (b) A beneficiary whose retirement allowance is lower than the
19 minimum benefit provided under RCW 41.40.1984.

(3) The following persons shall also be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary receiving the minimum benefit on June 30, 1995, under RCW 41.40.198; or

(b) A recipient of a survivor benefit on June 30, 1995, which has been increased by RCW 41.40.325.

(4) If otherwise eligible, those receiving an annual adjustment under RCW 41.40.188(1)(c) shall be eligible for the annual increase adjustment in addition to the benefit that would have been received absent this section.

(5) Those receiving a benefit under RCW 41.40.220(1), or a survivor of a disabled member under RCW 41.44.170(5) shall be eligible for the benefit provided by this section.

(6) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

Sec. 2. RCW 41.32.489 and 1995 c 345 s 2 are each amended to read as follows:

(1) Beginning July 1, 1995, and annually thereafter, the retirement allowance of a person meeting the requirements of this section shall be increased by the annual increase amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary who has received a retirement allowance for at least one year by July 1st in the calendar year in which the annual increase is given and has attained at least age sixty-six by (~~July 1st~~) December 31st in the calendar year in which the annual increase is given; or

(b) A beneficiary whose retirement allowance is lower than the minimum benefit provided under RCW 41.32.4851.

(3) The following persons shall also be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary receiving the minimum benefit on June 30, 1995, under RCW 41.32.485; or

(b) A recipient of a survivor benefit on June 30, 1995, which has been increased by RCW 41.32.575.

1 (4) If otherwise eligible, those receiving an annual adjustment
2 under RCW 41.32.530(1)(d) shall be eligible for the annual increase
3 adjustment in addition to the benefit that would have been received
4 absent this section.

5 (5) Those receiving a temporary disability benefit under RCW
6 41.32.540 shall not be eligible for the benefit provided by this
7 section.

8 (6) The legislature reserves the right to amend or repeal this
9 section in the future and no member or beneficiary has a contractual
10 right to receive this postretirement adjustment not granted prior to
11 that time.

12 NEW SECTION. **Sec. 3.** This act takes effect July 1, 2004.

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